



Restructuring New Jersey's Future

Budget Summit

Monday, March 6, 2006

Rutgers University

New Brunswick, New Jersey

Summary

- New Jersey faces a severe budget crisis resulting from past bad practices, mismanagement and court mandates
- Health care, education spending, and employee benefit costs are the biggest expenditures and need to be examined and re-prioritized
- Very difficult choices in terms of revenues and expenditures must be made to balance the budget
- Our objective is to put the state on a path of fiscal responsibility where operating expenditures are matched by recurring revenues

Historical Perspective

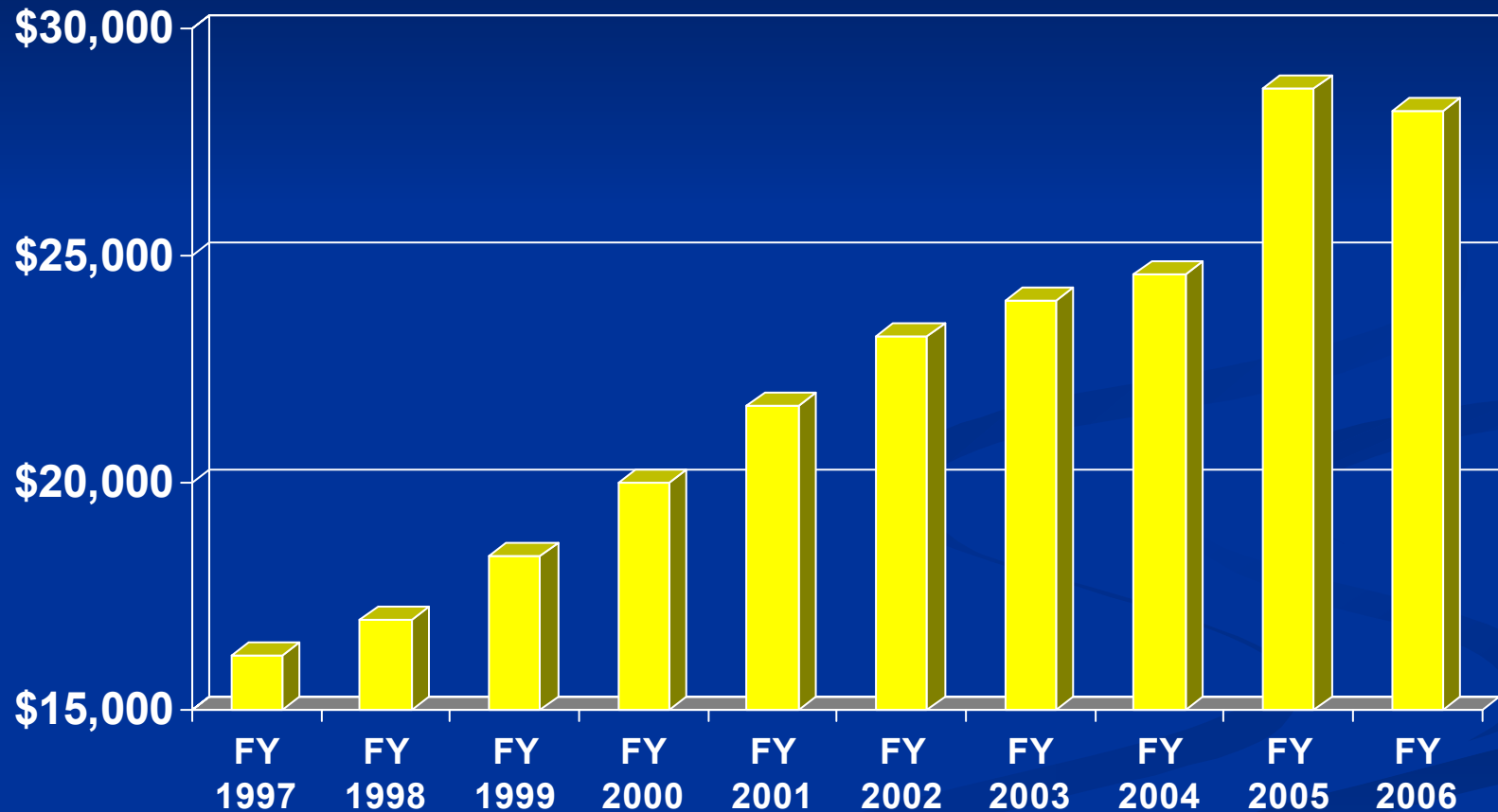
- 20 years ago New Jersey was the most fiscally sound state in the Northeast
- AAA Bond Rating
- Deterioration began in the late 1980's and continued under both Democratic and Republican administrations
 - Fiscal gamesmanship became the norm
 - Chronically lived beyond its means
 - Credit and financial prospects deteriorated year after year

Road to decline often paved in good intentions

- Tax cuts were advanced as economic stimulus measures
- Higher retirement and health benefits were mandated for teachers, police and firemen, and public employees
- New spending on Schools Construction, Green Acres, Historic Preservation, and other popular and worthy purposes
- Courts mandated increased state spending on school aid for the Abbott districts and the child welfare system

Growth in Appropriations

\$ in millions



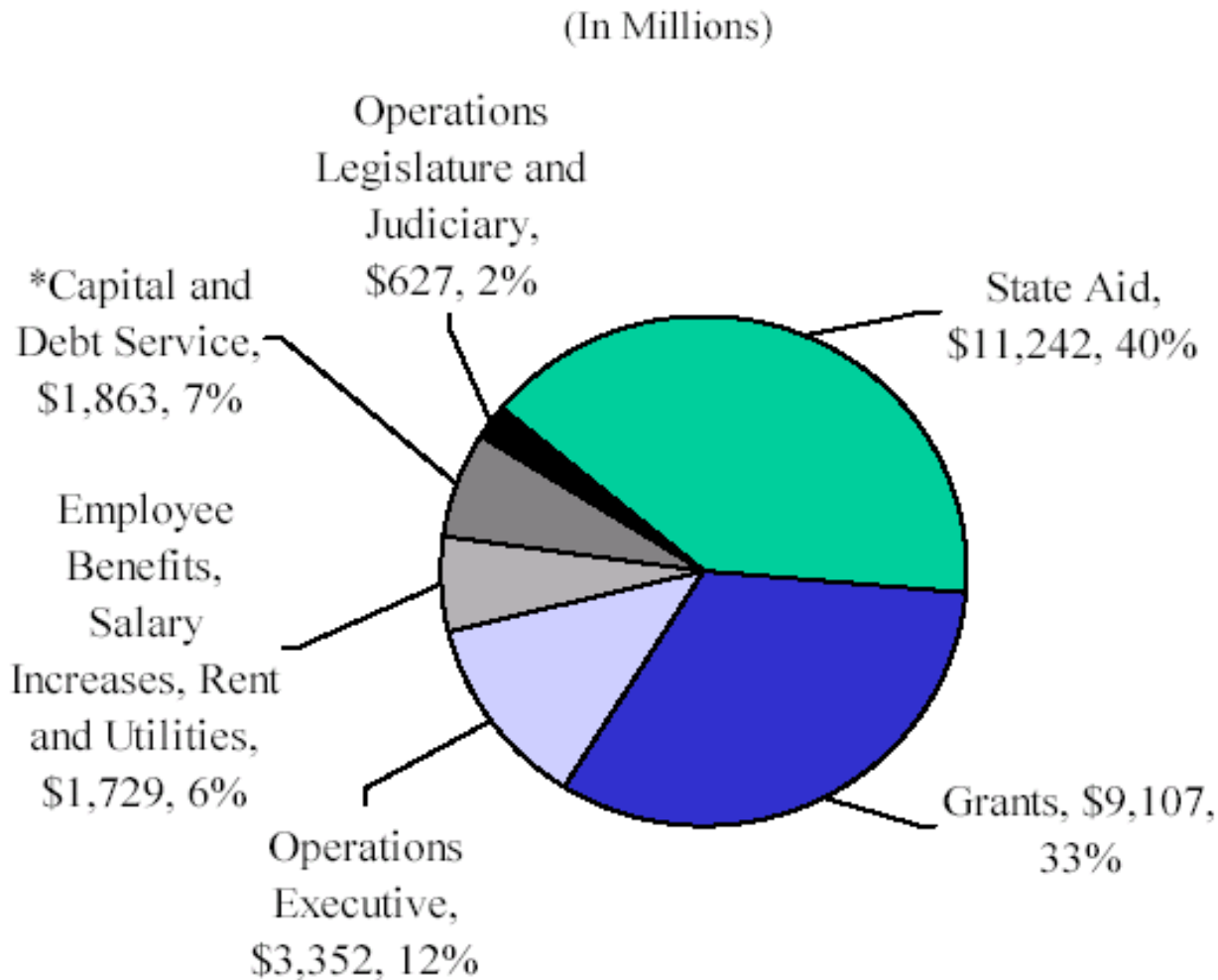
Problem: In many cases, on-going funding was not secured for new expenditures

- Financed by internal borrowing, thus pushing costs to later years
- Revenues were not earmarked to cover the growth in the cost of the programs
- Recurring revenues were not identified to fund recurring expenditures

Many on-going current service expenditures were funded with non-recurring, one time strategies

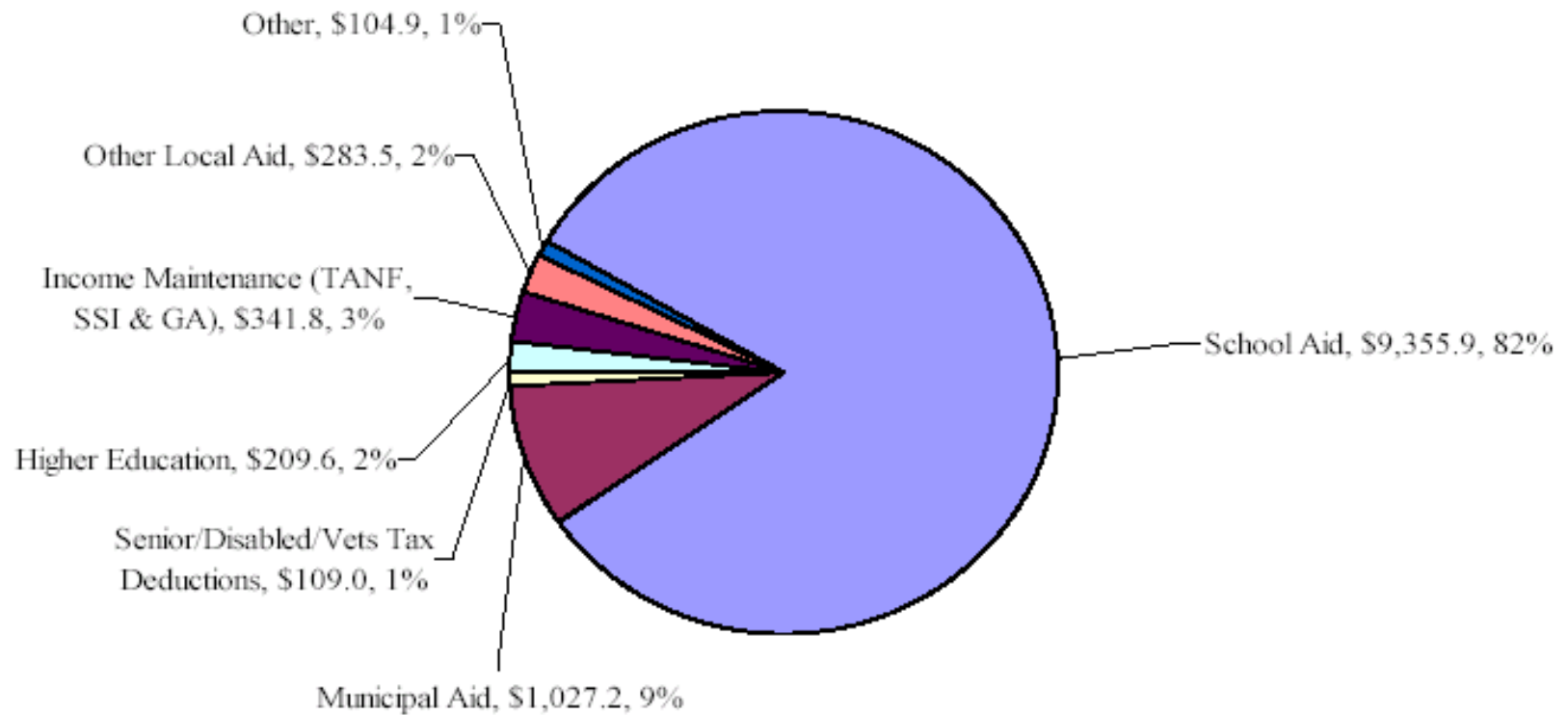
- Revenues were obtained from one-time sources (e.g., using excess funds from UIF).
- Expenses were appropriated in FY05 budget and carried forward to FY06 budget.
- Other one-time sources of revenue (e.g., asset sales)
- Failure to fund obligations (e.g., pensions)

FY 06 Expenditures Primarily Support State Aid and Grants

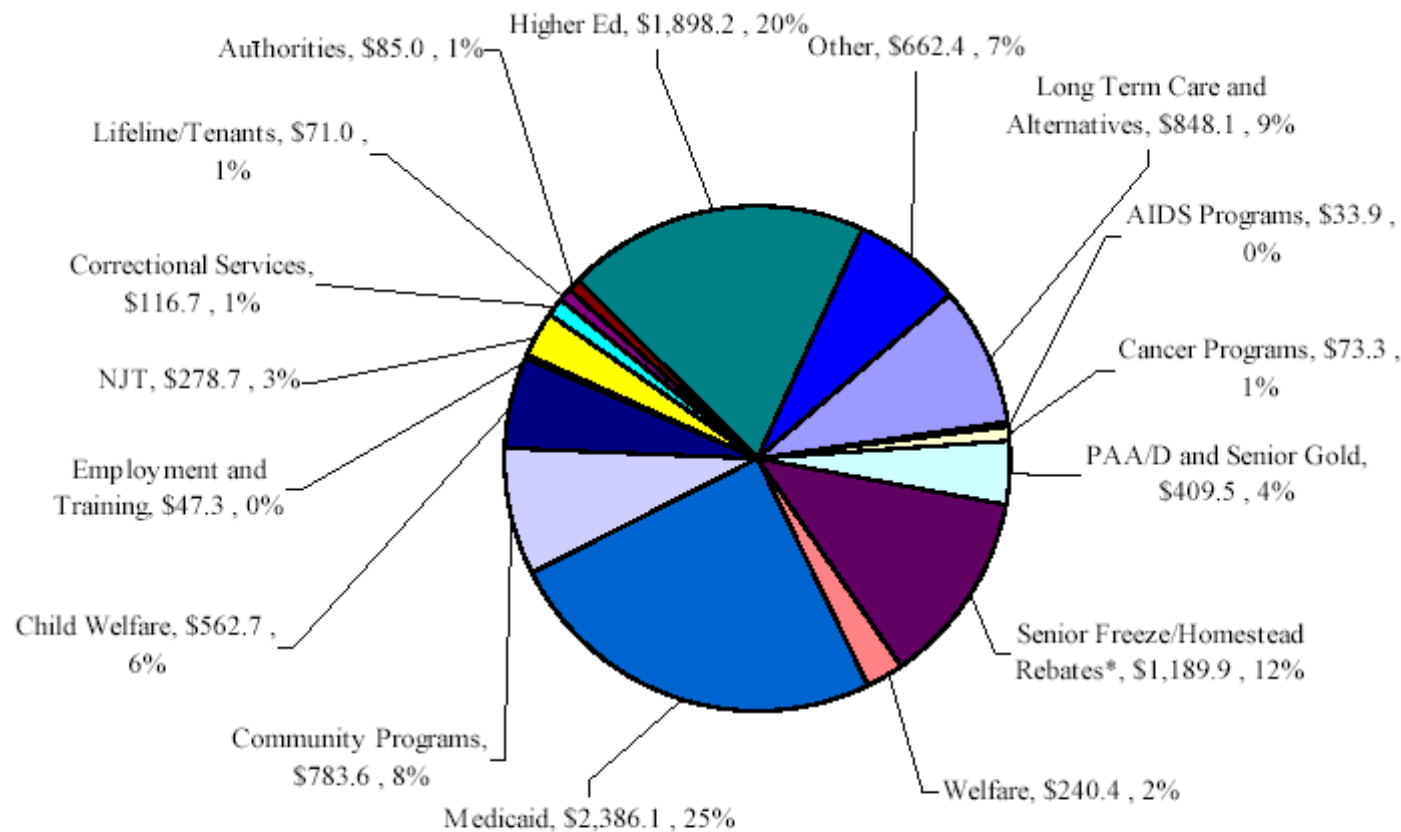


In FY 06 State Aid was at a record level, with school aid representing over 80%

(In Millions)



Direct property tax relief, medicaid and higher education represent 57% of grants in aid

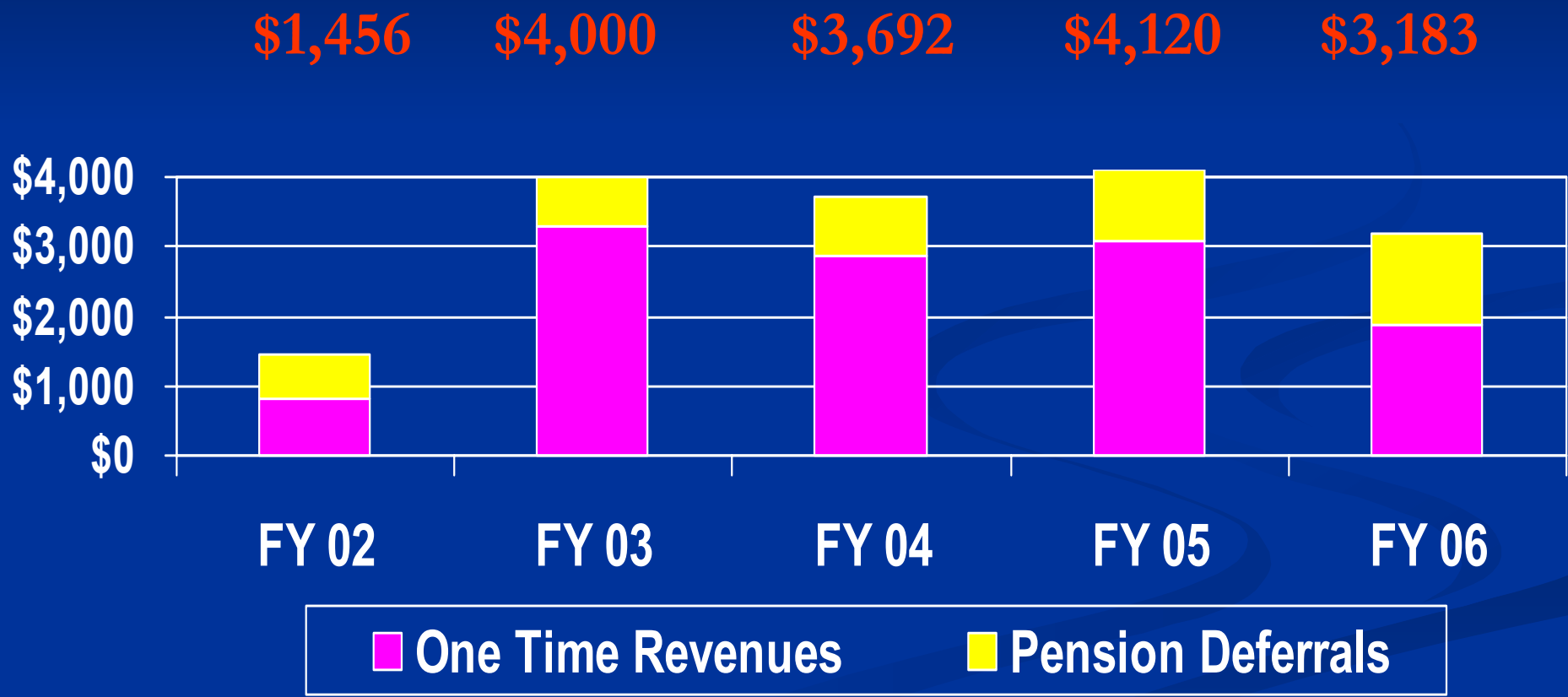


Total FY 2006 Grants-In-Aid State funded, \$9.7 billion

* Includes \$400m in FY 2005 Supplemental for Homestead Rebates

More Than \$16 Billion of One Time Revenues and Pension Contribution Deferrals Can Not and Should Not Continue

(\$ in millions)



Anticipated Current Services Expenditure Growth Needs in FY 07

(in millions) (selected areas, current estimates)

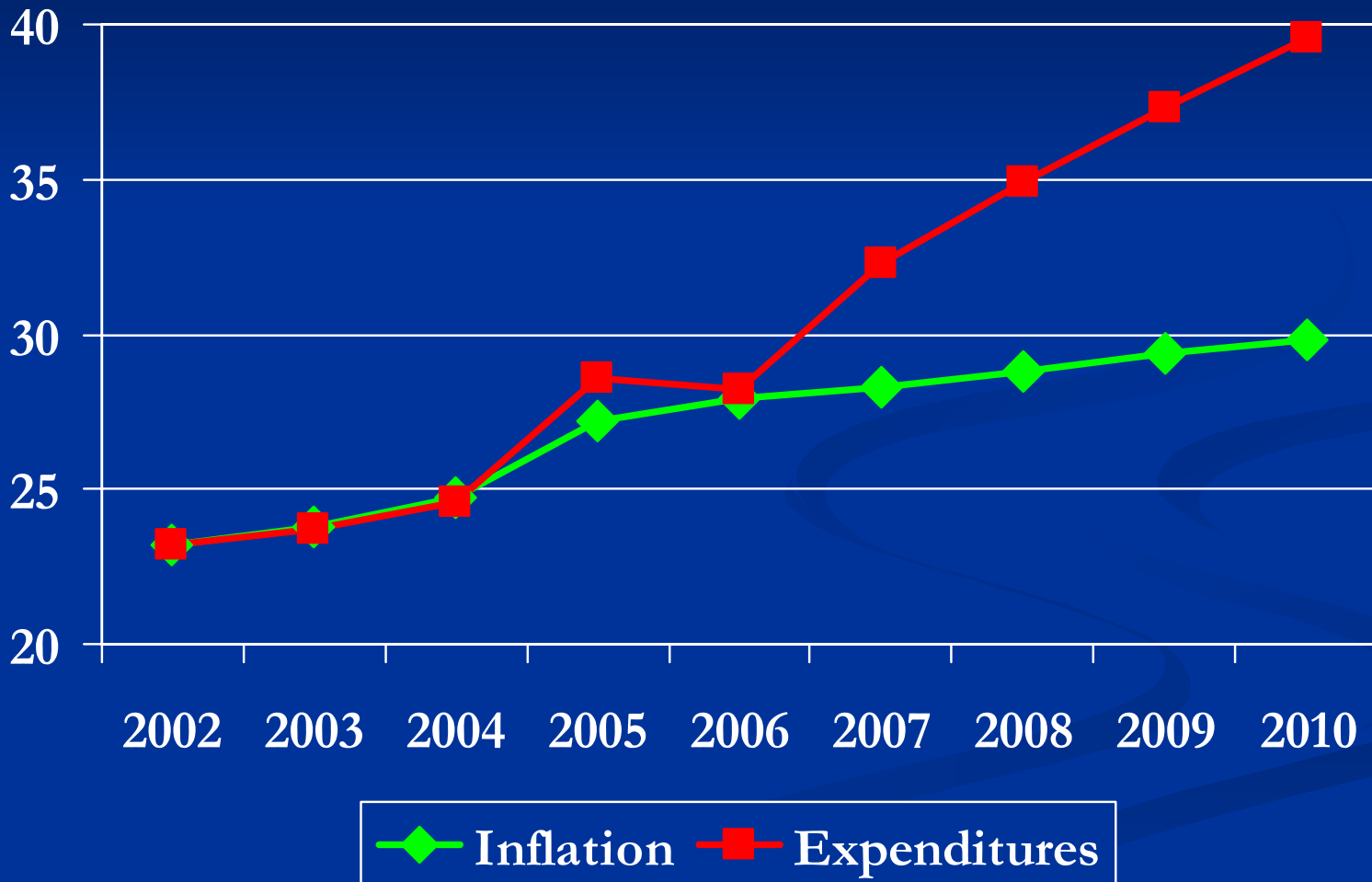
State, College, and Teacher Employee Pension & Health Benefits	\$ 1,889
School Aid	\$ 511
Homestead Rebate	\$ 462
Medicaid	\$ 339
Charity Care/Medicaid UI	\$ 350
G.O. Debt	\$ 263
State Salary Contracts (\$50 deferred COLA & increments)	\$ 230
Children's Services (DYFS Reform)	\$ 182
Other Debt (\$17 refinance FY06 impact)	\$ 165
Municipal Aid (CMPTRA/ERT)	\$ 71
Higher Education (no operating aid increase)	\$ 27
Total Projected Growth	\$ 4,900

The budget gap is not a one year phenomenon...

- With expenditures projected to continue to grow in FY 08, FY09 and beyond
- And revenues projected to grow 3 – 4 %, in line with the economy....
- The gap would increase each year by \$750 to \$1,250 million

Projected Expenses

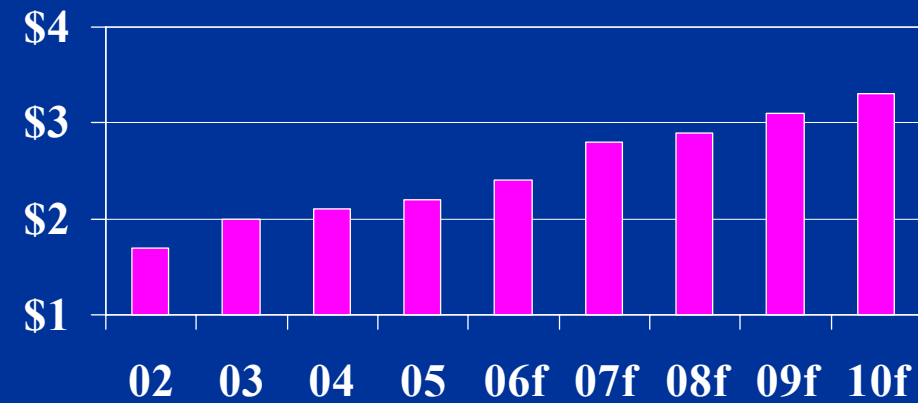
Will Continue to Grow Faster than Inflation, Absent Policy Changes



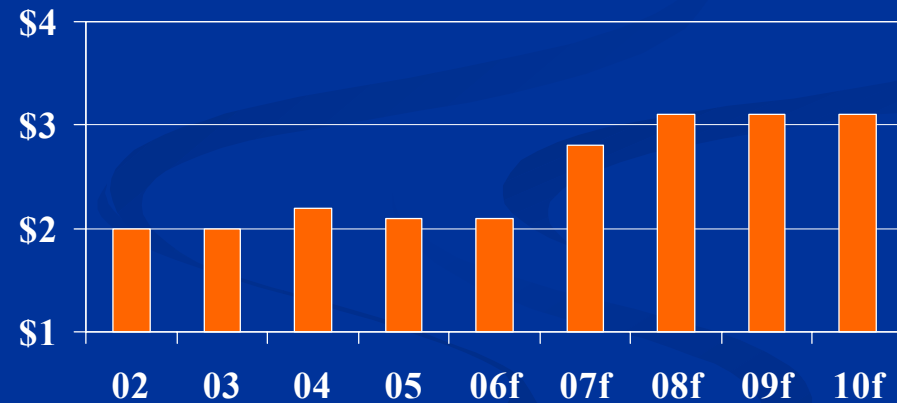
Expenses Will Continue To Grow Rapidly

(In Billions)

Medicaid



School Aid

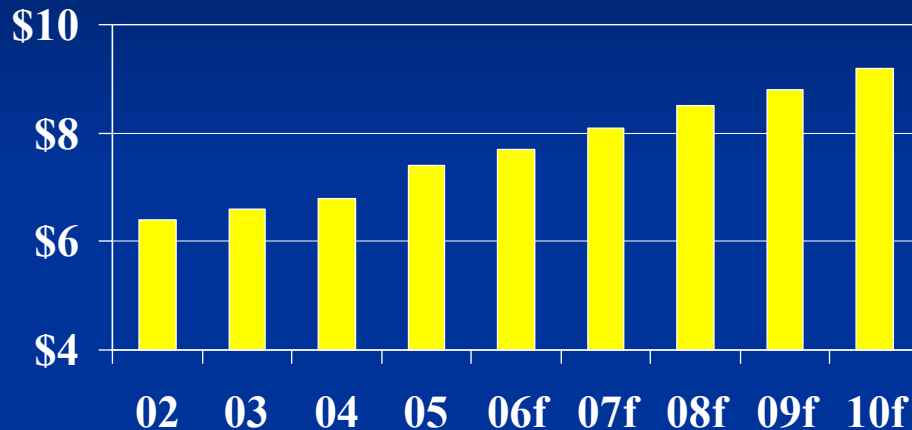


Expenses

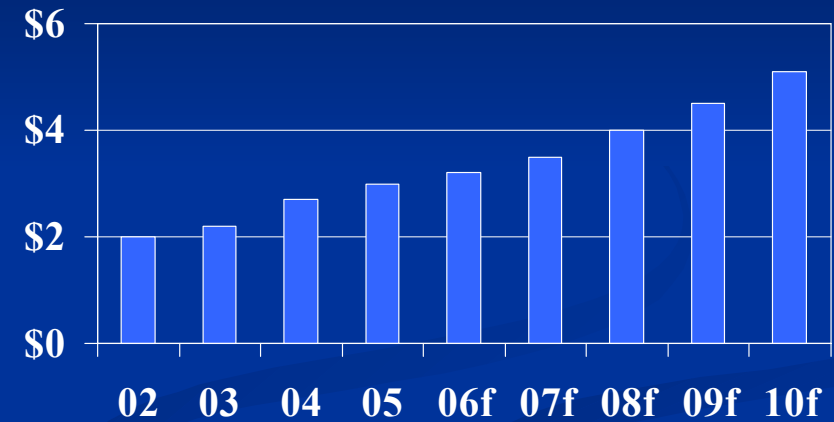
Will Continue to Grow Rapidly (cont'd)

(In Billions)

Debt Service and Mandatory Capital



Fringe Benefit Cost



Pension Expenses

